

Congress of the United States  
CONGRESSIONAL OVERSIGHT PANEL

# Opening Statement of Richard Neiman

## Congressional Oversight Panel Hearing on the TARP and Executive Compensation Restrictions

October 21, 2010

Good Morning. Thank you to Special Master Feinberg and to our four other knowledgeable witnesses for sharing your depth of experience this morning.

When I first started as a bank regulator in New York almost four years ago, one of the first things that became clear was that misaligned compensation incentives in the mortgage origination process were harming consumers and poisoning the mortgage market. As my Panel colleagues and our witnesses know, too many new homeowners were steered into inappropriate subprime products because of the higher profits those products provided to loan originators. Worse, such misaligned compensation incentives permeated throughout the entire securitization process, as the default risk of these products was consistently offloaded onto others.

The entire financial system is rife with potential for similar conflicts between short-term profits and long-term sustainability. I hope to focus this morning on the best ways we have collectively learned to align risk with compensation so that we do not again need another TARP.

The guidance issued by the federal bank regulators takes a principles-based approach to assuring that institutions appropriately balance risks and rewards and do not encourage imprudent risk-taking. I hope to draw on the witnesses' expertise to explore the pros and cons of a rules-based vs. principles-based approach to compensation. It seems to me that it is clearly difficult to draw effective rules for all situations before the fact, but at the same time the enforcement of principles requires vigilance and discretion.

An additional area worth considering is if compensation and pay incentives are not just a concern for those generating revenue within institutions. The incentives of those whose job it is to manage risk and assure legal compliance is arguably as important. The mindset that considers risk managers as merely a cost of doing business is one we can no longer afford.

I am pleased that the Panel is exploring the topic of executive compensation today. Compensation issues are an unfinished business in building a more resilient financial sector.